

CITY OF COTTONWOOD FALLS
CHASE COUNTY, KANSAS
INDEPENDENT AUDITORS' REPORT AND
REGULATORY BASIS FINANCIAL STATEMENT
YEAR ENDED DECEMBER 31, 2015

ALDRICH AND COMPANY LLC
CERTIFIED PUBLIC ACCOUNTANTS
COUNCIL GROVE, KANSAS 66846

City of Cottonwood Falls
Chase County, Kansas

REGULATORY BASIS FINANCIAL STATEMENT
Year Ended December 31, 2015

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditors' Report	1-2
Summary Statement of Receipts, Expenditures, and Unencumbered Cash	3
Notes to the Financial Statement	4-10
Regulatory-Required Supplementary Information:	
Schedule 1 - Summary of Expenditures	11
Schedule 2 – Schedule of Receipts and Expenditures	
General Fund	12
Special Purpose Funds:	
Sales Tax Fund	13
Special Highway Fund	14
Special Parks & Recreation Fund	15
Municipal Equipment Reserve Fund	16
Capital Improvement Reserve Fund	17
Swope Park Equipment Fund	18
Streetscape Fund	19
Community Building Equipment Fund	20
Veterans Memorial Fund	21
Cottonwood Falls Volunteers	22
Pool Renovation Fund	23
Bill North Courtyard Fund	24
Chase Disc Golf Fund	25
Christmas Lights Fund	26
Bond and Interest Fund	27
Business Fund:	
Sewer Fund	28
Solid Waste Fund	29
Water Fund	30
Schedule 3 - Agency Funds	31

ALDRICH & COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

315 WEST MAIN
COUNCIL GROVE, KS 66846

620-767-6653
1-800-361-6545
FAX 620-767-8149

Independent Auditors' Report

Mayor and City Council
City of Cottonwood Falls, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the City of Cottonwood Falls, Kansas, as of and for the year ended December 31, 2015 and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 1; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the City of Cottonwood Falls, Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Cottonwood Falls, Kansas, as of December 31, 2015, or the changes in financial position and cash flows for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the City of Cottonwood Falls, Kansas, as of December 31, 2015, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget, individual fund schedules of regulatory basis receipts and expenditures-actual and budget, and schedule of regulatory basis receipts and disbursements-agency funds, (Schedules 1, 2, and 3 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, but are required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. In addition, certain prior year actual information has been presented for a comparative analysis and is not a required part of the basic financial statement. This comparative information has been derived from the City's 2014 basic financial statement and, in our report dated July 15, 2015 we expressed an unmodified opinion on the financial statement and respective schedules, taken as a whole, on the regulatory basis of accounting. The 2014 basic financial statement and our accompanying report are not presented herein, but are available in electronic form from the website of the Kansas Department of Administration at the following link <http://da.ks.gov/ar/muniserv/>.

All supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2014 and 2015 basic financial statement. The 2014 and 2015 information has been subjected to the auditing procedures applied in the audit of the 2014 or 2015 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2014 and 2015 information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

Aldrich & Company, LLC

Aldrich & Company, LLC
July 26, 2016

City of Cottonwood Falls
Chase County, Kansas

Summary Statement of Receipts, Expenditures, and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2015

Fund	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
General Fund	\$ 109,149	807	\$ 408,586	\$ 429,779	\$ 88,763	\$ 10,886	\$ 99,649
Special Purpose Funds:							
Sales Tax Fund	148,635		143,575	115,557	176,653		176,653
Special Highway	1,903		23,000	3,261	21,642		21,642
Special Parks & Recreation	3,717		1,218	0	4,935		4,935
Municipal Equipment Reserve Fund	541		399	0	940		940
Capital Improvement Reserve Fund	(430,698)	32,349	433,969	27,812	7,808		7,808
Swope Park Equipment	7,261		0	0	7,261		7,261
Streetscape	546		0	297	249		249
Community Building Equipment	85		0	0	85		85
Veterans Memorial	7,144		3,350	1,685	8,809		8,809
Cottonwood Falls Volunteers	80		0	0	80		80
Pool Renovation Fund	3,000		2,000	0	5,000		5,000
Bill North Courtyard Fund	3,435		0	675	2,760		2,760
Chase Disc Golf Fund	0		10,575	5,212	5,363	5,000	10,363
Christmas Lights Fund	0		11,639	10,429	1,210	135	1,345
Bond and Interest Fund:							
Bond and Interest	770		0	770	0		0
Business Funds							
Sewer Fund	53,218		39,732	28,982	63,968	1,268	65,236
Solid Waste Fund	46,679		136,058	105,159	77,578	4,706	82,284
Water Fund	245,356	0	310,709	229,694	326,371	5,538	331,909
Total Reporting Entity (Excluding Agency Funds)	\$ 200,821	\$ 33,156	\$ 1,524,810	\$ 959,312	\$ 799,475	\$ 27,533	\$ 827,008

Composition of Cash:

Checking	\$ 576,750
Certificates of Deposit	252,836
Petty cash - City Clerk	150
	<u>829,736</u>
Less: Agency Funds per Schedule 3	(2,728)
Total Reporting Entity (Excluding Agency Funds)	<u>\$ 827,008</u>

The accompanying notes to the financial statement are an integral part of this statement.

City of Cottonwood Falls
Chase County, Kansas

Notes to the Financial Statement
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Municipal Financial Reporting Entity

The City of Cottonwood Falls is a governmental entity governed by an elected five-member council and mayor. The City's major operations include public safety and transportation, culture and recreation, and general administrative services. The City also operates three major business type activities: a sewer system, a solid waste system, and a water system.

This financial statement presents the City of Cottonwood Falls (the municipality) but does not include any related municipal entities of the City of Cottonwood Falls.

Regulatory Basis Fund Types

The accounts of the City are organized and operated on the basis of funds, which are used to record the City's financial transactions. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Cash and other financial resources are recorded together with all related expenditures. A fund is used to segregate specific activities and for the purpose of attaining certain objectives in accordance with special regulations, restrictions, or limitations including State Statutes and City Ordinances. The following types of funds compromise the financial activities of the City.

General Fund - the chief operating fund. It is used to account for all resources except those required to be accounted for in another fund.

Special Purpose Fund – used to account for the proceeds of specific tax levies and other specific revenue sources (other than capital projects and tax levies for long-term debt) that are intended for specified purposes.

Bond and Interest Fund – used to account for the accumulation of resources, including tax levies, transfers from other funds and payment of general long-term debt.

Business Fund - funds financed in whole or in part by fees charged to users of the goods or services (i.e. enterprise and internal service fund etc.).

Agency Fund – funds used to report assets held by the municipal reporting entity in a purely custodial capacity.

Basis of Accounting

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

The Kansas Municipal Audit and Accounting Guide (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investment balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c) waiving the requirement of application of generally accepted accounting principles and allowing the city to use the regulatory basis of accounting.

City of Cottonwood Falls
Chase County, Kansas

Notes to the Financial Statement
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

Use of Estimates

The preparation of the financial statement in conformity with the regulatory basis of accounting requires management to make estimates and assumptions that affect the reported amounts of cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures at the date of the financial statement. Accordingly, actual results could differ from those estimates.

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), bond and interest funds, and business funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in regulatory receipts other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held, and the governing body may amend the budget at that time. There were no such amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison schedules are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the regulatory basis of accounting in which regulatory receipts are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital projects funds, trust funds, and the following special purpose funds: equipment reserve, capital improvement reserve, streetscape, veterans memorial, Cottonwood Falls volunteers funds, pool renovation fund, Bill North courtyard fund, Chase disc golf and Christmas lights fund.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

City of Cottonwood Falls
Chase County, Kansas

Notes to the Financial Statement
December 31, 2015

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Finance-Related Legal and Contractual Provisions.

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and legal representatives of the municipality.

K.S.A 10-1113 requires that no indebtedness be created for a fund in excess of available monies in the fund. The capital improvement fund had a negative balance at December 31, 2014; however, this was due to a project in which the federal reimbursing grant and loan amounts were received in 2015. This is an allowable exception.

Management is not aware of any other items of noncompliance with Kansas statutes.

NOTE 3 - DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

Concentration of credit risk

State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under 9-1402 and 9-1405.

Custodial credit risk – deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. Deposits were legally secured at December 31, 2015.

At year-end, the carrying amount of the City's deposits was \$829,586 and the bank balance was \$837,295. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, \$500,000 was covered by federal depository insurance and \$337,295 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

The city held no investments at December 31, 2015.

NOTE 4 - PROPERTY TAXES

The city certifies its' budget to the county clerk annually. Using this certified budget and those of other political subdivisions within the county, the county clerk spreads the annual assessment onto the tax rolls and levies property tax on November 1 of each year. The property tax is payable in two installments. The first installment is due December 20th of the same year, and the second installment is due May 10 of the subsequent year. The county treasurer collects and distributes the property taxes. In accordance with state statutes, property taxes levied during the current year are a revenue source to be used to finance the following year's operations.

City of Cottonwood Falls
Chase County, Kansas

Notes to the Financial Statement
December 31, 2015

NOTE 5 – INTERFUND TRANSFERS

Operating Transfers were as follows:

Transferred from:	Transferred to:	Statute	Amount
Bond & Interest Fund	General Fund	10-117a	\$770

NOTE 6 – CAPITAL PROJECTS

The City completed its water line improvement project in 2015. The city was awarded a \$500,000 Community Development Block Grant and a \$1.1 million loan from the Kansas Department of Health & Environment to finance the improvements. The engineering, administrative and construction expenditures on the project totaled \$1,656,858.

NOTE 7 - LONG-TERM DEBT

KDHE Loan

The City of Cottonwood Falls entered into a loan agreement with the Kansas Department of Health and Environment on October 1, 2012, to finance a portion of the cost to replace waterlines, associated service lines and meters in the city. The original authorized loan amount was \$1,100,000, which was amended on October 19, 2015 to \$1,166,876. The City made a payment of \$34,302 on February 1, 2015. After that, semi-annual principal and interest payments in the amount of \$36,250 began on August 1, 2015 and are due on February 1 and August of each year with the final payment to be made on August 1, 2034. Payments on this loan are to be made from revenues of the water fund.

Lease Agreements

The City entered into a lease agreement with Cottonwood Valley Bank for the purchase of a 2008 Chevy Pickup on April 28, 2015 for \$11,000. The city made an initial payment of \$1,000 on April 28, 2015 and then three annual payments of \$3,569 are scheduled, beginning April 28, 2016. The lease terminates in any budgeted year in which insufficient appropriated funds exist to meet the lease obligation, and the City must return the leased equipment to the lessor. Payments on the lease are split between the general, water and solid waste funds.

The City entered into a lease agreement with Cottonwood Valley Bank for the purchase of a trash dumpsters/poly carts on March 16, 2015 for \$22,160. The city made an initial payment of \$4,160 on March 16, 2015 and then two annual payments of \$9,441 are scheduled, beginning March 16, 2016. The lease terminates in any budgeted year in which insufficient appropriated funds exist to meet the lease obligation, and the City must return the leased equipment to the lessor. Payments on this lease are made from the solid waste fund.

The City entered into a lease agreement with Cottonwood Valley Bank for the purchase of a 2008 Kenworth trash truck January 18, 2016 for \$73,200. The city made an initial payment of \$13,200 on January 18, 2016 and then sixteen quarterly payments of \$4,056 are scheduled, beginning April 18, 2016. The lease terminates in any budgeted year in which insufficient appropriated funds exist to meet the lease obligation, and the City must return the leased equipment to the lessor. Payments on this lease are made from the solid waste fund.

City of Cottonwood Falls
Chase County, Kansas

Notes to the Financial Statement
December 31, 2015

NOTE 7 - LONG-TERM DEBT (CONT)

Changes in long term liabilities for the year ended December 31, 2015 were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Beginning Balance	Additions	Reductions/ Payments	Ending Balance	Interest Paid
KDHE Loan									
Water Loan	2.25%	10/1/2012	\$ 1,166,876	8/1/2034	\$ 743,596	\$ 423,280	\$ 54,118	\$ 1,112,758	\$16,434
Capital Leases:									
Dumpsters	3.25%	3/16/2015	22,160	3/16/2017	0	22,160	4,160	18,000	0
Chevy PU	3.50%	4/28/2015	11,000	4/28/2018	0	11,000	1,000	10,000	0
					<u>\$ 743,596</u>	<u>\$ 456,440</u>	<u>\$ 59,278</u>	<u>\$ 1,140,758</u>	<u>\$16,434</u>

Current maturities on long term debt and interest for the next five years and in five year increments through maturity are as follows:

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021-2025</u>	<u>2026-2030</u>	<u>2031-2035</u>	<u>Total</u>
PRINCIPAL									
KDHE Loan									
Water Project loan	\$ 48,079	\$ 48,577	\$ 49,676	\$ 50,800	\$ 51,949	\$ 277,919	\$ 310,817	\$ 274,941	\$ 1,112,758
Capital Leases:									0
2008 Trash Truck	23,778	14,573	15,128	15,703	4,018	0	0	0	73,200
2008 Chevy Pickup	3,219	3,332	3,449	0	0	0	0	0	10,000
Dumpsters/Poly Carts	<u>8,856</u>	<u>9,144</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>18,000</u>
Total principal	<u>83,932</u>	<u>75,626</u>	<u>68,253</u>	<u>66,503</u>	<u>55,967</u>	<u>277,919</u>	<u>310,817</u>	<u>274,941</u>	<u>1,213,958</u>
INTEREST									
KDHE Loan									
Water Project loan	24,181	23,683	22,584	21,460	20,311	83,381	50,483	14,099	260,182
Capital Leases:									0
2008 Trash Truck	1,589	1,650	1,096	520	38	0	0	0	4,893
2008 Chevy Pickup	350	237	121	0	0	0	0	0	708
Dumpsters/Poly Carts	<u>585</u>	<u>297</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>882</u>
Total interest	<u>26,705</u>	<u>25,867</u>	<u>23,801</u>	<u>21,980</u>	<u>20,349</u>	<u>83,381</u>	<u>50,483</u>	<u>14,099</u>	<u>266,665</u>
Total Principal & Interest	<u>\$ 110,637</u>	<u>\$ 101,493</u>	<u>\$ 92,054</u>	<u>\$ 88,483</u>	<u>\$ 76,316</u>	<u>\$ 361,300</u>	<u>\$ 361,300</u>	<u>\$ 289,040</u>	<u>\$ 1,480,623</u>

City of Cottonwood Falls
Chase County, Kansas

Notes to the Financial Statement
December 31, 2015

NOTE 8 – OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS

Compensated Absences

The City employees earn and accumulate up to 5 days of vacation during the first year of employment, earn 10 days and accumulate 15 days up to 7 years of employment, and earn 15 days and accumulate 15 days thereafter. Employees having accumulated more vacation days before the August 2, 1993 adoption of this policy are allowed to carry forward those days under the prior policy. The City's full-time employees earn up to 12 days per year of sick time and part-time employees earn up to 6 days per year. No employee may accumulate more than 100 days of sick leave and no sick pay is paid upon separation of service. Compensated absence payments are made from the fund that corresponds to the employees duties.

Other Post Employment Benefits

As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level premium regardless of age. However, the cost of this subsidy has not been quantified in this financial statement.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured.

NOTE 9 - DEFINED BENEFIT PENSION PLAN

Plan description The City of Cottonwood Falls participates in the Kansas Public Employees Retirement System (KPERS), a cost sharing multiple-employer defined pension benefit plan as provided by K.S.A. 74-4901, et seq. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at www.kpers.org or by writing to KPERS (611 S. Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding policy K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2 or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009 and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member-employee contribution rate at 6% of covered salary for KPERS 1, KPERS 2 and KPERS 3 members. Member contributions are withheld by their employer and paid to KPERS according to the provisions of section 414(h) of the Internal Revenue Code.

State law provides that employer contribution rates for KPERS 1, KPERS 2 and KPERS 3 be determined based on the results of each annual actuarial valuation. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 0.85% contribution rate for Death and Disability Program) and the statutory contribution rate was 9.48% for the fiscal year ended December 31, 2015. Contributions to the pension plan from the City of Cottonwood Falls were \$30,557 for the year ended December 31, 2015

Net Pension Liability - At December 31, 2015, The City of Cottonwood Falls' proportionate share of the collective net pension liability reported by KPERS was \$158,327. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, which was rolled forward to June 30, 2015. The City of Cottonwood Falls' proportion of the net pension liability was based on the ratio of the City's contributions to KPERS, relative to the total employer and non-employer contributions of the Local subgroup within KPERS. Since the KMAAG regulatory basis of accounting does not recognize long-term debt, this liability is not reported in these financial statements. The complete actuarial valuation report including all actuarial assumptions and methods, and the report on the allocation of the KPERS collective net pension liability to all participating employers are publicly available on the website at www.kpers.org or can be obtained as described above.

City of Cottonwood Falls
Chase County, Kansas

Notes to the Financial Statement
December 31, 2015

NOTE 9 - DEFINED BENEFIT PENSION PLAN (CONT)

The complete actuarial valuation report including all actuarial assumptions and methods, and the report on the allocation of the KPERS collective net pension liability to all participating employers are publicly available on the website at www.kpers.org or can be obtained as described above.

NOTE 10 – RISK MANAGEMENT

The city is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Insurance claims have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from coverage in prior years.

NOTE 11 – SUBSEQUENT EVENTS

The City of Cottonwood Falls joined together with the City of Strong City and the Rural Water District No. 1 to form Public Wholesale Water Supply District No. 26. The purpose of the District is to produce, treat, transport, distribute, and sell an adequate source of water wholesale to its members, including the City of Cottonwood Falls. The City of Cottonwood Falls began purchasing water from the District in March of 2016 for resale to its customers.

On April 15, 2016, the City of Cottonwood Falls was awarded a grant from the Kansas Department of Transportation (KDOT) to make needed repairs and improvements to some streets in the City. The total project cost is estimated at \$780,670, which will be funded by the KDOT grant in the amount of \$573,656 and the local match of \$207,014 is anticipated to be funded with city sales tax collections.

REGULATORY-REQUIRED
SUPPLEMENTARY INFORMATION

City of Cottonwood Falls
Chase County, Kansas

Schedule 1

Summary of Expenditures – Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2015

FUNDS	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Over (Under)
General Fund	\$ 526,677	\$ 0	\$ 526,677	\$ 429,779	\$ (96,898)
Special Purpose Funds:					
Sales Tax	255,930	0	255,930	115,557	(140,373)
Special Highway	59,505	0	59,505	3,261	(56,244)
Special Parks & Recreation	3,999	0	3,999	0	(3,999)
Bond and Interest Funds:					
Bond and Interest Fund	770	0	770	770	0
Business Funds:					
Sewer Fund	94,030	0	94,030	28,982	(65,048)
Solid Waste Fund	146,010	0	146,010	105,159	(40,851)
Water Fund	387,494	0	387,494	229,694	(157,800)

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-A

Schedule of Receipts and Expenditures – Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2015
(With Comparative Actual Total for the Prior Year Ended December 31, 2014)

GENERAL FUND

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Receipts				
County Tax	\$ 316,307	\$ 316,861	\$ 309,378	\$ 7,483
Liquor Tax	1,346	1,218	1,371	(153)
Community Building Rent	4,610	2,700	3,000	(300)
Court Fees	379	316	2,100	(1,784)
Franchise Fees	47,171	41,300	45,000	(3,700)
Interest on Idle Funds	1,516	1,397	1,500	(103)
Licenses and Permits	420	852	320	532
Municipal Building Rental	5,172	5,172	5,170	2
Park Rental	1,720	3,045	2,100	945
Street	0	150	0	150
Swimming Pool	20,389	18,784	20,000	(1,216)
Equipment Sale	25,000	0	0	0
Misc Reimbursements and Other	19,556	16,021	12,800	3,221
Transfers in	2,296	770	770	0
Total Receipts	445,882	408,586	403,509	5,077
Expenditures				
General Government	122,902	197,298	135,000	62,298
Streets	63,735	56,106	58,000	(1,894)
Airport	2,516	3,360	2,900	460
Pool	45,438	44,211	40,000	4,211
Parks	37,490	31,747	38,000	(6,253)
Public Safety	29,146	22,542	26,000	(3,458)
Employee Benefits	50,715	45,985	54,000	(8,015)
Law Enforcement	9,000	9,000	9,000	0
Housing Authority	9,600	9,600	10,350	(750)
Industrial Development	6,000	6,000	6,000	0
Noxious Weed	0	0	2,700	(2,700)
Dump	846	2,118	1,000	1,118
Neighborhood Revitalization Refunds	929	1,812	1,812	0
Capital Outlay	26,975	0	135,915	(135,915)
Water fund expenditures	0	0	6,000	(6,000)
Transfers Out	0	0	0	0
Total Expenditures	405,292	429,779	526,677	(96,898)
Receipts Over (Under) Expenditures	40,590	(21,193)	\$ (123,168)	\$ 101,975
Unencumbered Cash, January 1	68,559	109,149		
Prior Year Cancelled Encumbrance	0	807		
Unencumbered Cash, December 31	\$ 109,149	\$ 88,763		

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-B

Schedule of Receipts and Expenditures – Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2015
(With Comparative Actual Total for the Prior Year Ended December 31, 2014)

SALES TAX FUND

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Receipts				
Sales Tax	\$ 99,649	\$ 143,575	\$ 136,500	\$ 7,075
Sidewalk Reimbursements	0	0	0	0
Total Receipts	99,649	143,575	136,500	7,075
Expenditures				
Personal	0	0	15,000	(15,000)
Commodities	0	10,952	0	10,952
Contractual	20,620	26,276	80,000	(53,724)
Capital outlay	64,824	78,329	160,930	(82,601)
Total Expenditures	85,444	115,557	255,930	(140,373)
Receipts Over (Under) Expenditures	14,205	28,018	<u>\$ (119,430)</u>	<u>\$ 147,448</u>
Unencumbered Cash, January 1	134,430	148,635		
Unencumbered Cash, December 31	<u>\$ 148,635</u>	<u>\$ 176,653</u>		

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-C

Schedule of Receipts and Expenditures – Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2015
(With Comparative Actual Total for the Prior Year Ended December 31, 2014)

SPECIAL HIGHWAY (GAS TAX) FUND

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Receipts				
State of Kansas gas tax	\$ 22,851	\$ 23,000	\$ 23,500	\$ (500)
Total Receipts	<u>22,851</u>	<u>23,000</u>	<u>23,500</u>	<u>(500)</u>
Expenditures				
Contractual Service	36,600	0	44,000	(44,000)
Commodities	9,024	3,261	10,000	(6,739)
Capital outlay	<u>4,829</u>	<u>0</u>	<u>5,505</u>	<u>(5,505)</u>
Total Expenditures	<u>50,453</u>	<u>3,261</u>	<u>59,505</u>	<u>(56,244)</u>
Receipts Over (Under) Expenditures	(27,602)	19,739	<u><u>\$ (36,005)</u></u>	<u><u>\$ 55,744</u></u>
Unencumbered Cash, January 1	<u>29,505</u>	<u>1,903</u>		
Unencumbered Cash, December 31	<u><u>\$ 1,903</u></u>	<u><u>\$ 21,642</u></u>		

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-D

Schedule of Receipts and Expenditures – Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2015
(With Comparative Actual Total for the Prior Year Ended December 31, 2014)

SPECIAL PARKS & RECREATION FUND

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Receipts				
Liquor Tax	\$ 1,346	\$ 1,218	\$ 1,371	\$ (153)
Total Receipts	1,346	1,218	1,371	(153)
Expenditures				
Parks & Recreation	0	0	3,999	(3,999)
Total Expenditures	0	0	3,999	(3,999)
Receipts Over (Under) Expenditures	1,346	1,218	<u>\$ (2,628)</u>	<u>\$ 3,846</u>
Unencumbered Cash, January 1	2,371	3,717		
Unencumbered Cash, December 31	<u>\$ 3,717</u>	<u>\$ 4,935</u>		

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-E

Schedule of Cash Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2015
(With Comparative Actual Total for the Prior Year Ended December 31, 2014)

MUNICIPAL EQUIPMENT RESERVE FUND

	Prior Year Actual	Current Year Actual
Receipts		
Miscellaneous	\$ 541	\$ 399
Operating Transfers	0	0
Total Receipts	541	399
Expenditures		
Capital Outlay	1,202	0
Total expenditures	1,202	0
Receipts Over (Under) Expenditures	(661)	399
Unencumbered Cash, January 1	1,202	541
Unencumbered Cash, December 31	\$ 541	\$ 940

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-F

Schedule of Cash Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2015
(With Comparative Actual Total for the Prior Year Ended December 31, 2014)

CAPITAL IMPROVEMENT RESERVE FUND

	Prior Year Actual	Current Year Actual
Receipts		
Grant Proceeds	\$ 483,975	\$ 11,525
Loan Proceeds	608,644	422,444
Operating Transfers	<u>0</u>	<u>0</u>
Total Receipts	1,092,619	433,969
Expenditures		
Water Project Improvements	1,533,342	27,812
Interest paid	<u>2,927</u>	<u>0</u>
Total Expenditures	<u>1,536,269</u>	<u>27,812</u>
Receipts Over (Under) Expenditures	(443,650)	406,157
Unencumbered Cash, January 1	12,952	(430,698)
Prior Year Cancelled Encumbrances	<u>0</u>	<u>32,349</u>
Unencumbered Cash, December 31	<u>\$ (430,698)</u>	<u>\$ 7,808</u>

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-G

Schedule of Cash Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2015
(With Comparative Actual Total for the Prior Year Ended December 31, 2014)

SWOPE PARK EQUIPMENT FUND

	Prior Year Actual	Current Year Actual
Receipts		
Donations	\$ 950	\$ 0
State of Kansas	<u>0</u>	<u>0</u>
Total Receipts	<u>950</u>	<u>0</u>
Expenditures		
Capital Outlay	<u>0</u>	<u>0</u>
Total Expenditures	<u>0</u>	<u>0</u>
Receipts Over (Under) Expenditures	950	0
Unencumbered Cash, January 1	<u>6,311</u>	<u>7,261</u>
Unencumbered Cash, December 31	<u>\$ 7,261</u>	<u>\$ 7,261</u>

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-H

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2015
(With Comparative Actual Total for the Prior Year Ended December 31, 2014)

STREETSCAPE FUND

	Prior Year Actual	Current Year Actual
Receipts		
Contributions	\$ 0	\$ 0
Other Receipts	0	0
Total Receipts	0	0
Expenditures		
Contractual Service	2,275	0
Commodities	2,383	297
Total Expenditures	4,658	297
Receipts Over (Under) Expenditures	(4,658)	(297)
Unencumbered Cash, January 1	5,204	546
Unencumbered Cash, December 31	<u>\$ 546</u>	<u>\$ 249</u>

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-I

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2015
(With Comparative Actual Total for the Prior Year Ended December 31, 2014)

COMMUNITY BUILDING EQUIPMENT FUND

	Prior Year Actual	Current Year Actual
Receipts		
Miscellaneous receipts	\$ 0	\$ 0
Total Receipts	0	0
Expenditures		
Equipment	0	0
Total Expenditures	0	0
Receipts Over (Under) Expenditures	0	0
Unencumbered Cash, January 1	85	85
Unencumbered Cash, December 31	<u>\$ 85</u>	<u>\$ 85</u>

City of Cottonwood Falls
Chase County, Kansas

Statement 2-J

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2015
(With Comparative Actual Total for the Prior Year Ended December 31, 2014)

VETERANS MEMORIAL FUND

	Prior Year Actual	Current Year Actual
Receipts		
Contributions	\$ 1,658	\$ 3,235
Other	0	115
Total Receipts	1,658	3,350
Expenditures		
Contractual Service	0	0
Commodities	679	1,685
Total Expenditures	679	1,685
Receipts Over (Under) Expenditures	979	1,665
Unencumbered Cash, January 1	6,165	7,144
Unencumbered Cash, December 31	\$ 7,144	\$ 8,809

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-K

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2015
(With Comparative Actual Total for the Prior Year Ended December 31, 2014)

COTTONWOOD FALLS VOLUNTEERS

	Prior Year Actual	Current Year Actual
Receipts		
Donations	\$ 0	\$ 0
Total Receipts	0	0
Expenditures		
Contractual	0	0
Total Expenditures	0	0
Receipts Over (Under) Expenditures	0	0
Unencumbered Cash, January 1	80	80
Unencumbered Cash, December 31	\$ 80	\$ 80

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-L

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2015
(With Comparative Actual Total for the Prior Year Ended December 31, 2014)

POOL RENOVATION FUND

	Prior Year Actual	Current Year Actual
Receipts		
Donations	\$ 3,000	\$ 2,000
Total Receipts	<u>3,000</u>	<u>2,000</u>
Expenditures		
Capital Outlay	<u>0</u>	<u>0</u>
Total Expenditures	<u>0</u>	<u>0</u>
Receipts Over (Under) Expenditures	3,000	2,000
Unencumbered Cash, January 1	<u>0</u>	<u>3,000</u>
Unencumbered Cash, December 31	<u>\$ 3,000</u>	<u>\$ 5,000</u>

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-M

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2015
(With Comparative Actual Total for the Prior Year Ended December 31, 2014)

BILL NORTH COURTYARD FUND

	Prior Year Actual	Current Year Actual
Receipts		
Donations	\$ 6,915	\$ 0
Total Receipts	<u>6,915</u>	<u>0</u>
Expenditures		
Commodities	3,480	0
Contractual	<u>0</u>	<u>675</u>
Total Expenditures	<u>3,480</u>	<u>675</u>
Receipts Over (Under) Expenditures	3,435	(675)
Unencumbered Cash, January 1	<u>0</u>	<u>3,435</u>
Unencumbered Cash, December 31	<u>\$ 3,435</u>	<u>\$ 2,760</u>

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-N

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2015
(With Comparative Actual Total for the Prior Year Ended December 31, 2014)

CHASE DISC GOLF FUND

	Prior Year Actual	Current Year Actual
Receipts		
Donations	\$ 0	\$ 10,575
Total Receipts	0	10,575
Expenditures		
Commodities	0	212
Contractual	0	5,000
Total Expenditures	0	5,212
Receipts Over (Under) Expenditures	0	5,363
Unencumbered Cash, January 1	0	0
Unencumbered Cash, December 31	\$ 0	\$ 5,363

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-O

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2015
(With Comparative Actual Total for the Prior Year Ended December 31, 2014)

CHRISTMAS LIGHTS FUND

	Prior Year Actual	Current Year Actual
Receipts		
Donations	\$ 0	\$ 9,886
Reimbursements	0	1,753
Total Receipts	0	11,639
Expenditures		
Commodities	0	7,564
Contractual	0	2,865
Total Expenditures	0	10,429
Receipts Over (Under) Expenditures	0	1,210
Unencumbered Cash, January 1	0	0
Unencumbered Cash, December 31	\$ 0	\$ 1,210

City of Cottonwood Falls
Chase County, Kansas

Statement 2-P

Schedule of Receipts and Expenditures – Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2015
(With Comparative Actual Total for the Prior Year Ended December 31, 2014)

BOND AND INTEREST FUND

	Prior Year Actual	Current Year		Variance Over Over (Under)
		Actual	Budget	
Receipts				
County Tax	\$ 0	\$ 0	\$ 0	\$ 0
Operating Transfers	0	0	0	0
Total Receipts	0	0	0	0
Expenditures				
Principal	0	0	0	0
Interest	0	0	0	0
Commission and Postage	0	0	0	0
Transfer Out	2,296	770	770	0
Total Expenditures	2,296	770	770	0
Receipts Over (Under) Expenditures	(2,296)	(770)	<u>(770)</u>	<u>0</u>
Unencumbered Cash, January 1	3,066	770		
Unencumbered Cash, December 31	<u>\$ 770</u>	<u>\$ 0</u>		

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Statement 2-Q

Schedule of Receipts and Expenditures – Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2015
(With Comparative Actual Total for the Prior Year Ended December 31, 2014)

SEWER FUND

	Prior Year Actual	Current Year		Variance Over Over (Under)
		Actual	Budget	
Receipts				
Charges for Services	\$ 40,052	\$ 39,732	\$ 45,000	\$ (5,268)
Other Receipts	0	0	550	(550)
Total Receipts	40,052	39,732	45,550	(5,818)
Expenditures				
Personal	15,505	15,420	23,000	(7,580)
Contractual	11,448	11,362	21,000	(9,638)
Commodities	1,039	1,872	2,050	(178)
Capital Outlay	6,772	328	47,980	(47,652)
Total Expenditures	34,764	28,982	94,030	(65,048)
Receipts Over (Under) Expenditures	5,288	10,750	<u>\$ (48,480)</u>	<u>\$ 59,230</u>
Unencumbered Cash, January 1	47,930	53,218		
Unencumbered Cash, December 31	<u>\$ 53,218</u>	<u>\$ 63,968</u>		

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Statement 2-R

Schedule of Receipts and Expenditures – Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2015
(With Comparative Actual Total for the Prior Year Ended December 31, 2014)

SOLID WASTE FUND

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Receipts				
Charges for Services	\$ 99,970	\$ 98,357	\$ 100,100	\$ (1,743)
Strong City	0	36,397	0	36,397
Other	156	1,304	200	1,104
Total Receipts	100,126	136,058	100,300	35,758
Expenditures				
Personal	42,513	55,526	39,900	15,626
Contractual	29,132	32,586	22,000	10,586
Commodities	7,123	6,028	7,000	(972)
Capital Outlay	16,589	11,019	77,110	(66,091)
Total Expenditures	95,357	105,159	146,010	(40,851)
Receipts Over (Under) Expenditures	4,769	30,899	<u>\$ (45,710)</u>	<u>\$ 76,609</u>
Unencumbered Cash, January 1	41,910	46,679		
Unencumbered Cash, December 31	<u>\$ 46,679</u>	<u>\$ 77,578</u>		

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Statement 2-S

Schedule of Receipts and Expenditures – Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2015
(With Comparative Actual Total for the Prior Year Ended December 31, 2014)

WATER FUND

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Receipts				
Charges for Services	\$ 306,619	\$ 306,703	\$ 253,650	\$ 53,053
Miscellaneous	427	4,006	0	4,006
Total Receipts	307,046	310,709	253,650	57,059
Expenditures				
General Administration	57,216	52,703	57,000	(4,297)
Production	57,086	52,158	57,000	(4,842)
Transmission	52,082	54,281	52,000	2,281
Capital Outlay	0	0	152,690	(152,690)
Loan Payments/Reserve	0	70,552	68,804	1,748
Total Expenditures	166,384	229,694	387,494	(157,800)
Receipts Over (Under) Expenditures	140,662	81,015	<u>\$ (133,844)</u>	<u>\$ 214,859</u>
Unencumbered Cash, January 1	104,694	245,356		
Unencumbered Cash, December 31	<u>\$ 245,356</u>	<u>\$ 326,371</u>		

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Schedule 3

Summary of Receipts and Disbursements
Regulatory Basis
For the Year Ended December 31, 2015

AGENCY FUNDS

<u>Fund</u>	<u>Beginning Cash Balance</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Ending Cash Balance</u>
Sales Tax	\$ 560	\$ 2,663	\$ 2,352	\$ 871
Customer Deposit	5,522	0	3,972	1,550
Payroll Tax	<u>358</u>	<u>65,148</u>	<u>65,199</u>	<u>307</u>
Total	<u>\$ 6,440</u>	<u>\$ 67,811</u>	<u>\$ 71,523</u>	<u>\$ 2,728</u>